

Rating Rationale

Brickwork Ratings assigns ‘BWR A (SO)’ for the Proposed Structured Non-Convertible Debenture Issue of ₹ 900 Cr for Adani Infra (India) Ltd.

Brickwork Ratings (BWR) has assigned the **Rating¹** ‘BWR A (SO)’ (BWR A Structured Obligation) with **Stable Outlook** for Adani Infra (India) Ltd.’s (AAIL or the ‘Company’) Structured NCD of ₹ 900 Cr with **tenor of One year and 16 days**.

BWR has essentially relied upon the indicative term sheet outlining the structure of the deal, audited financial results of the issuer AAIL as well as Adani Power Ltd (APL) and Adani Ports and Special Economic Zone Ltd (APSEZ) whose equity shares are provided as collateral for the proposed NCD and information and clarification provided by the issuer.

The rating factors, inter alia, the strength of underlying collateral in the form of pledge of equity shares of APL and APSEZ which are listed, fundamentals of APL and APSEZ and structure of the proposed NCD issue. However, the rating is constrained by performance of the issuer, reliance on recovery of inter corporate deposits, uncertainty in availability of adequate cash flows for NCD redemption, and credit profile of APL. Performance of APSEZ and APL and other promoter companies is a key sensitivity to the Rating.

Background

Adani Infra (India) Ltd. (AAIL) is an infrastructure development company with specialization in engineering, project management and construction services for power generation and transmission sector. AAIL provides Project Management Consulting (PMC) and Engineering, Procurement and Construction (EPC) services for various projects. Under PMC, the company provides consultancy for engineering, technical data preparations, logistics management, and overall monitoring of project. AAIL is a 100% subsidiary of Adani Enterprises Ltd (AEL).

NCD Structure and use of proceeds

The proposed structured, secured NCD of ₹900 Cr will be issued at a discount of 1% on face value. The NCD proceeds will be used for refinancing existing indebtedness of issuer, loans to AEL or APL and for general corporate purpose. Proceeds shall not be used directly or indirectly for acquisition/ funding of any asset or project. NCD Coupon is 11.84% p.a. Brief highlights of the indicative terms are as follows

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Pledger	Adani Enterprises Ltd (AEL)
Tenor	1 year 16 days Issuer has to deposit the sum of financing amount + accrued premium up to date of voluntary redemption date into the cash margin a/c at least 15 days prior to maturity (Voluntary Redemption Date)
Voluntary Redemption	Issuer has the right to redeem the debentures on the Voluntary redemption date provided that the issuer notifies the investor at least 5 days in advance. The redemption amt on the Voluntary Redemption date would be the sum of the financing amt and accrued premium
Redemption	Bullet Repayment on maturity including principal and redemption premium
LTV	On any day a ratio calculated as (a) divided by (b) where:
	(a) Financing amount plus Accrued Premium minus any aggregate amount posted in cash margin a/c and (b) The market value of the collateral basket using the lower of (1) closing price of Adani Power & Adani Ports and (2) 30 day average closing price of Adani Power and Adani Ports
Underlying Shares/ Collateral Basket	Ordinary shares of Adani Power Ltd and Adani Ports & SEZ Ltd
Initial Loan to Value (LTV)	40% (2.5x)
Initial Collateral	As of financing date ordinary shares of Adani Power and Adani Ports in a ratio of 60% (1.5x) and 40% (1x) respectively in INR terms such that initial LTV of 40% is met.
Security Package	Direct Pledge on the collateral basket and cash margin a/c
Collateral Mechanics	Collateral Cover: [2.5x] at inception
Top up Eligible Collateral	Top up LTV – 44.4% [top up trigger – cover falls below 2.25x] If LTV on any day, calculated based on closing price of the underlying shares is equal to or higher than 44.4%, then issuer would be required to deliver eligible collateral within 2 business days such that the LTV is reset to 40%. First top up LTV triggering event - Ordinary shares of Adani Power or Adani Ports, such that after the top up, atleast 40% of the value of the collateral basket comprises Adani Ports shares Second and Third Top up LTV triggering event – ordinary shares of Adani Ports, such that after that the top up, atleast 40% of the value of the collateral basket comprises Adani Ports shares Subsequent Top up trigger events – INR Cash Only
Top Down	(A) 36.3% in case of release of top up shares only: [top down trigger – cover increases to 2.75x] If the LTV on any day is equal to or lower than 36.3%, the issuer may request investor to release such amount of eligible collateral (excluding initial collateral), provided that immediately following any such release, (1) the LTV is not more than 40% and (2) at least 40% of the value of collateral basket comprises Adani Ports (B) 30.7% in case of release of any initial collateral [top down trigger – cover increases to 3.25x] If the LTV on any day is equal to or lower than 30.7%, the issuer may request investor to release such amount collateral basket (including initial collateral), provided that immediately following any such release, (1) the LTV is not more than 30.7% and (2) at least 40% of the value of collateral basket comprises Adani Ports

Background of Adani Power Limited (APL):

Incorporated in 1996, APL is engaged in generation of power in India. Company together with its subsidiaries is currently developing various power projects with a combined installed capacity of 9,240 MW, out of which 8620 MW is operational. The company sells power through power purchase agreements and merchant sale. APL is presently the largest private power producer in India. Promoter holding in the company is 75% of which AEL holds 69%.

Background of Adani Ports and Special Economic Zone Limited (APSEZ):

Incorporated in 1998, APSEZ is an engaged in the development and operations of Ports and special economic zone (SEZ). The company also provides logistics services at its ports including railway network at Mundra. The company was initially named Mundra Port & Special Economic Zone Ltd and changed to Adani Ports and Special Economic Zone Ltd in 2012. The company operates ports at Mundra, Dahej, Mormugao, Visakhapatnam and Hazira in India. It divested its entire stake in Abbot Point, Australia, in FY13. The company is also developing port infrastructure at Kandla in India,. APSEZ has a capacity to handle 185 million tonnes of cargo per annum. Currently, the notified multi-product SEZ is spread over 6473 hectares, with an additional 168 hectares notified as a Free Trade Warehousing Zone. APSEZ currently operates 5 ports with 33 berths and is developing bulk terminals with 4 berths at one port. Promoter holding in the company is 75% of which AEL holds 74.99%.

Financials of AAIL

AAIL registered revenue decline of 30% in FY13 to Rs.743 Cr from ₹1060 Cr in FY12. Operating margin was at 2.1% down from 2.95% in FY12. Net margin however improved to 1.7% in FY13 due to interest income received on loans & advances. AAIL's capital structure stood weak at 6.77x in FY13 while tangible net worth stood at ₹36 Cr and total debt of ₹250 Cr. Total debt, comprising of inter corporate deposits, are expected to increase to ₹ 1868 Cr post issue of proposed NCDs. Absence of operational cash flows to meet redemption requirements of the proposed NCD's is a rating sensitivity factor. Company however expects to receive interest income to meet redemption requirements.

Financials of APL

On a consolidated basis, APL registered strong revenue growth over the last 2 years growing from ₹ 2135 Cr in FY11 to ₹6779 Cr in FY13. However rising fuel costs, high depreciation and interest costs have resulted in significant losses. Company registered a loss after tax of ₹2295 Cr in FY13 despite revenue growth. Increasing losses and debt levels to meet project funding have resulted in a weak capital structure which was at 9.75x in FY13.

For 12M FY14, APL registered net loss of ~₹290.55 Cr on total operating income of ~₹15768 Cr. Company has recognized revenues of ₹ 1843 Cr- ₹ 829.75 Cr towards the compensatory tariff till 31st March 2013 and ₹ 1013.37 for the period April 2013 to March 2014. with regards to the CERC order on compensatory tariff. APL's customers have filed an appeal against the CERC order with the Appellate Tribunal for Electricity.

Financials of APSEZ

On a consolidated level, APSEZ posted operating income of ₹3577 crores for FY13 against ₹2697 crores for FY12 registering a growth of ~33%. Growth was supported by increase cargo handled by the ports. The Mundra port has seen a strong growth in cargo handled growing 28% y-o-y to 82.13 MMT. Operating profit margin though healthy at ~66.79% in FY 2013, saw marginal improvement from 66.49% in FY12 due to sharp increase in port handling costs. Profit after tax for the year FY13 increased by ~55 % to ~₹1639 Cr from ~₹1093 Cr in FY2012 on account of non-operating income of by way of interest on bank & inter corporate deposits and profit on stake dilution in subsidiary.

The capital structure of the company was comfortable for FY13 with 1.83x gearing ratio, with debt of ₹11586 crores for FY13 against Tangible net worth of ₹6396 Cr. ISCR was healthy on account of healthy profitability.

For 12MFY14, on a consolidated level, the Company has posted revenues of ~₹4824 Cr and PAT of ~₹1740 Cr. APSEZ (Mundra) continues to hold leading position amongst all commercial ports in terms of cargo by handling 83.90 MMT during April – December 2013.

Rating Outlook

The assigned rating primarily factors significant presence of intra group transactions in the company's operations, total adherence of the issuer to the indicative term sheet shared with Brickwork and enforcement of pledge agreement within specified time on occurrence of an event of default and.

The rating is subject to submission of transaction documents including legal opinion on the enforceability of the transaction. The Debenture trustee has informed that the debenture trust deed, share pledge agreement, deed of hypothecation and power of attorney for deed of pledge and hypothecation has been executed.

The given rating majorly captures performance of APSEZ and APL since AIIL does not have significant operational cash flows for NCD redemption and the NCD structure involving pledge of APL & APSEZ shares provided as collateral. LTV of 40%, top up triggers requiring APSEZ shares for 2nd & 3rd top up and cash top up thereafter provides cushion to investors. The Company is required to deposit all amounts payable under the facility (including principal and interest) 15 days prior to maturity viz. on voluntary redemption date into the cash margin account. This account is charged to the Trustee. This addresses the liquidity aspects to an extent, should there be a need to invoke the sale of collateral. Performance of APSEZ and APL and other promoter companies is a key sensitivity to the Rating.

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